

July 2007

Flash Report

The Employees' Retirement System of the County of Milwaukee

MERCER

Investment Consulting

Trustees' Summary

The Total Fund had an aggregate market value of just over \$1.62 billion at the end of July. The Total Fund declined 1.6% during the month, matching the Reference Index.

The large cap domestic equity market, as measured by the Russell 1000 Index, fell 3.1% during the month and small cap equity, as measured by the Russell 2000 Index, declined 6.8%. Growth outpaced value in both the large and small cap spaces.

The international equity markets dropped 1.5% in July, as measured by the EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, gained 5.3%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, advanced 0.8% during the month. High yield issues lagged the broad market declining 3.1%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- Performance for the non-funded managers in the mid cap segment, LSV and Franklin Portfolio Associates, is included on page 6.
- Mercer IC recently lowered our rating of the Robeco-Boston Partners Large Cap Value US Equity strategy to an A- from an A. The downgrade is due to turnover among the firm's research analysts over the past few years. Mercer IC recommends no change at this time as the current research team demonstrated good knowledge of their areas upon review in late June.
- The ERS was underweight core fixed income at the end of July. Total fixed income was within the Policy range at month end. Mercer IC recommends that the ERS rebalance back to the Policy Target by transferring \$20 million from GMO to the Melon Fixed Income Index and \$19 million from the Mellon S&P 500 Index to the Mellon Fixed Income Index.

MANAGER REPORTED PERFORMANCE
As of July 31, 2007

	Assets (\$ millions)	July	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,624.37	-1.6	4.0	14.3	13.3	13.6	7.8	8.2	--	
vs. Composite Market Index		-1.6	3.6	13.2	11.9	12.3	6.5	7.5	--	
CPI + 4% (1 Month in Arrears)		0.5	3.9	6.7	7.2	7.0	6.7	6.7	--	

LARGE CAP VALUE EQUITY MANAGER

Boston Partners	129.77	-3.9	3.9	17.9	16.5	15.1	11.0	8.6	12.6	8/1/95
Boston Partners - Net		-4.0	3.8	17.6	16.3	14.8	10.8	8.3	12.4	
vs. Russell 1000 Value + 1%		-4.5	1.6	14.5	15.7	15.5	9.5	9.6	13.1	
S&P 500 + 1%		-3.0	3.9	17.1	12.8	12.8	2.9	7.0	11.1	
CPI + 6.5% (1 Month in Arrears)		0.7	4.8	9.2	9.7	9.5	9.2	9.2	9.2	

LARGE CAP GROWTH EQUITY MANAGER

Mellon Capital Management - Ru 1000 Growth Index (2)	77.15	-1.6	6.4	19.5	10.3	10.2	N/A	N/A	--	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		--	--	--	--	--	N/A	N/A	--	
vs. Russell 1000 Growth		-1.6	6.4	19.5	10.3	10.2	-4.0	3.3	--	

LARGE CAP EQUITY INDEX

Mellon Capital Management - S&P 500 (2)	123.91	-3.1	3.6	16.1	11.8	11.8	1.9	6.0	--	4/13/95
Mellon Capital Management - S&P 500 - Net		--	--	--	--	--	--	--	--	
vs. S&P 500		-3.1	3.6	16.1	11.8	11.8	1.9	6.0	--	

MID CAP VALUE EQUITY MANAGER

Hotchkis & Wiley	29.61	-8.9	-2.1	12.9	N/A	N/A	N/A	N/A	10.6	2/18/05
Hotchkis & Wiley - Net		-9.0	-2.6	12.0	N/A	N/A	N/A	N/A	9.7	
vs. Russell Mid Cap Value + 1%		-5.5	2.9	16.9	19.1	19.2	15.5	12.6	15.1	
CPI + 5.7% (1 Month in Arrears)		0.7	4.6	8.4	8.9	8.7	8.4	8.4	9.3	

MID CAP GROWTH EQUITY MANAGER

Artisan Partners	32.01	-0.8	14.7	30.2	17.8	16.8	7.0	N/A	7.2	6/12/00
Artisan Partners - Net		-0.9	14.2	29.2	16.8	15.9	6.1	N/A	6.4	
vs. Russell Mid Cap Growth		-2.2	8.5	21.4	16.2	17.3	1.1	7.4	0.2	
CPI + 5.7% (1 Month in Arrears)		0.7	4.6	8.4	8.9	8.7	8.4	8.4	8.4	

(1) Total Fund returns represent actual returns through 6/30/2007 and estimated performance thereafter.

(2) Manager reported performance was unavailable at the time of production. Index returns are shown in this report.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of July 31, 2007

MID CAP CORE EQUITY	Assets (\$ millions)	July	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
EARNEST Partners	32.19	-2.4	7.5	17.1	N/A	N/A	N/A	N/A	13.2	2/18/05
EARNEST Partners - Net		-2.4	7.1	16.2	N/A	N/A	N/A	N/A	12.4	
vs. Russell Mid Cap Index + 1%		-3.6	6.1	19.9	18.4	18.9	10.7	11.5	14.8	
CPI + 5.7% (1 Month in Arrears)		0.7	4.6	8.4	8.9	8.7	8.4	8.4	9.3	
Reinhart & Mahoney	13.95	-4.9	5.8	19.0	N/A	N/A	N/A	N/A	15.5	2/18/05
Reinhart & Mahoney - Net		-5.1	5.1	17.9	N/A	N/A	N/A	N/A	14.8	
vs. S&P 400		-4.3	7.2	16.7	15.3	15.5	9.6	11.8	12.2	
CPI + 5.7% (1 Month in Arrears)		0.7	4.6	8.4	8.9	8.7	8.4	8.4	9.3	
SMALL CAP EQUITY MANAGERS										
Westfield Capital Management	51.59	-3.2	5.4	16.4	11.9	14.3	N/A	N/A	6.4	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		-5.2	3.7	16.8	13.3	15.7	1.4	4.2	8.0	
CPI + 5.9% (1 Month in Arrears)		0.7	4.7	8.6	9.1	8.9	8.6	8.6	8.6	
AQR	41.68	-8.6	-4.2	N/A	N/A	N/A	N/A	N/A	1.4	10/2/2006
AQR - Net		-8.6	-4.2	N/A	N/A	N/A	N/A	N/A	1.4	
vs. Russell 2000 Value		-8.5	-5.0	7.7	13.4	16.3	13.9	10.7	3.5	
Russell 2000 + 2%		-6.7	-0.3	14.1	15.4	18.0	9.8	9.8	10.0	
CPI + 5.9% (1 Month in Arrears)		0.7	4.7	8.6	9.1	8.9	8.6	8.6	8.1	
INTERNATIONAL EQUITY MANAGERS										
Capital Guardian	101.35	-1.2	10.0	23.7	22.5	19.3	6.5	9.9	11.4	9/1/94
Capital Guardian - Net		-1.3	9.7	23.2	21.9	18.7	6.0	9.4	10.8	
vs. EAFE + 1%		-1.4	9.7	25.4	24.5	21.3	8.4	8.7	9.0	
CPI + 6.7% (1 Month in Arrears)		0.7	4.9	9.4	9.9	9.7	9.4	9.4	9.4	
Grantham, Mayo	185.22	-1.1	11.8	26.4	26.4	25.3	16.9	13.4	13.1	4/13/95
Grantham, Mayo - Net		-1.1	11.4	25.6	25.6	24.4	16.1	12.6	12.3	
vs. EAFE + 1%		-1.4	9.7	25.4	24.5	21.3	8.4	8.7	9.3	
CPI + 6.7% (1 Month in Arrears)		0.7	4.9	9.4	9.9	9.7	9.4	9.4	9.3	

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of July 31, 2007

INTERNATIONAL SMALL CAP EQUITY MANAGER	Assets (\$ millions)	July	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Capital Guardian	75.77	1.6	14.6	31.0	33.7	29.9	10.7	N/A	13.1	10/31/97
Capital Guardian - Net		1.6	14.3	30.3	33.0	29.1	10.0	N/A	12.5	
vs. MSCI World Ex U.S. Small Cap + 1%		-0.6	11.1	27.4	25.4	25.0	14.1	9.4	11.0	
CPI + 6.9% (1 Month in Arrears)		0.8	4.9	9.6	10.1	9.9	9.6	9.6	9.6	
CORE FIXED INCOME MANAGERS										
JPMorganChase	110.58	1.0	2.3	6.0	N/A	N/A	N/A	N/A	5.1	11/1/05
JPMorganChase - Net		1.0	2.2	5.8	N/A	N/A	N/A	N/A	4.9	
vs. LB G/C + 0.5%		1.0	2.1	6.2	4.3	5.2	6.6	6.4	4.7	
LB Aggregate + 0.5%		0.9	1.9	6.1	4.4	4.9	6.5	6.3	4.8	
CPI + 2.6% (1 Month in Arrears)		0.4	3.9	5.3	5.8	5.6	5.3	5.3	5.3	
Mellon Capital Management (2)	289.88	0.8	1.8	5.6	3.9	4.4	6.0	5.8	--	1/31/96
Mellon Capital Management - Net		--	--	--	--	--	--	--	--	
vs. LB Aggregate		0.8	1.8	5.6	3.9	4.4	6.0	5.8	--	
Loomis, Sayles	97.07	0.6	2.6	7.9	6.5	8.4	9.3	7.7	9.7	6/30/91
Loomis, Sayles - Net		0.6	2.6	7.8	6.4	8.3	9.2	7.6	9.6	
vs. Fixed Income Reference Index + 0.5% (1)		0.9	1.9	6.1	4.4	4.9	6.5	6.4	7.8	
LB Aggregate + 0.5%		0.9	1.9	6.1	4.4	4.9	6.5	6.3	7.6	
CPI + 2.6% (1 Month in Arrears)		0.4	3.9	5.3	5.8	5.6	5.3	5.3	5.4	

(1) The Fixed Income Reference Index consists of the 50/50 benchmark until May 1999 and the Lehman Brothers Aggregate Index thereafter.

(2) Manager reported performance was unavailable at the time of production. Index returns are shown in this report.

Policy Measures are Highlighted

MANAGER REPORTED PERFORMANCE
As of July 31, 2007

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	July	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	119.26	-4.4	-2.0	5.5	7.6	12.8	9.5	7.7	12.1	11/30/82
Loomis, Sayles - Net		-4.4	-2.1	5.3	7.5	12.7	9.4	7.6	11.9	
vs. Merrill Lynch High Yield + 1.5%		-3.0	0.2	8.5	8.8	13.2	8.8	7.5	N/A	
CPI + 5.0% (1 Month in Arrears)		0.6	4.5	7.7	8.2	8.0	7.7	7.7	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	67.24	-7.3	-13.5	-0.6	19.2	19.4	16.8	12.7	12.8	1/13/97
ING Clarion Real Estate Securities - Net		-7.3	-13.7	-1.0	18.8	19.0	16.3	12.3	12.4	
vs. Wilshire REIT Index + 1%		-7.8	-13.3	0.3	19.8	19.6	17.8	13.7	13.8	
MSCI US REIT Index + 1%		-7.8	-13.9	0.6	18.7	18.9	17.0	12.8	12.9	
CPI + 5.9% (1 Month in Arrears)		0.7	4.7	8.6	9.1	8.9	8.6	8.6	8.5	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	27.65	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (2)	--	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	2.76	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Consists of the most recently available custody Market Value to account for the cash the manager does not include in their values.

(2) The assets invested with Adams Street Partners is aggregated to account for the custody cash.

Policy Measures are Highlighted

NON-FUNDED MANAGER REPORTED PERFORMANCE
As of June 30, 2007*

<u>MID CAP VALUE MANAGER</u>	<u>Quarter</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
LSV	3.8	19.6	17.8	17.1
vs. Russell Midcap Value Index	3.7	22.1	19.3	17.2
 <u>MID CAP CORE MANAGERS</u>				
Franklin Portfolio Associates	5.4	13.5	13.8	14.1
vs. Russell Midcap Index	5.3	20.8	17.2	16.4

*Performance is gross of fees and represents the quoted composite returns of each manager,

ASSET ALLOCATION
As of July 31, 2007

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	20.4 %	20.0 %	17.0 %	25.0 %
Boston Partners	8.0			
Mellon Capital Russell 1000 Growth	4.7			
Mellon Capital S&P 500	7.6			
Total Medium Cap Equity	6.6 %	6.0 %	4.0 %	7.5 %
Artisan Partners	2.0			
Hotchkis & Wiley	1.8			
EARNEST Partners	2.0			
Reinhart & Mahoney	0.9			
Total Small Cap Equity	5.7 %	5.0 %	3.0 %	6.5 %
Westfield	3.2			
AQR	2.6			
Total International Equity	17.6 %	16.0 %	11.0 %	21.0 %
Capital Guardian	6.2			
Grantham, Mayo	11.4			
Int'l Small Cap Equity	4.7 %	4.0 %	0.0 %	7.0 %
Capital Guardian	4.7			
Venture Capital	1.9 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	56.9 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION**As of July 31, 2007**

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	30.6 %	35.0 %	31.0 %	41.0 %
JP Morgan	6.8			
Mellon Capital	17.8			
Loomis, Sayles	6.0			
High-Yield Fixed Income	7.3 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	7.3 %			
Cash	1.0 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	38.9 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.1 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

**Average Credit Quality
of current Fixed Income managers**

JPMorgan	AAA
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	A1
Loomis High Yield:	Ba3

Mercer Ratings for Current Managers

<i>Large Cap Eq</i>	Mercer Rating	<i>Int'l Small Cap Eq</i>	Mercer Rating
Boston Partners	A-	Cap. Guardian	N
Mellon Russell 1000 Growth	N ¹		
Mellon S&P 500	N ¹		
<i>Mid & Small Cap Eq</i>		<i>Core Fixed</i>	
Artisan	B+	JP Morgan	B
Hotchkis & Wiley	A (T)	Mellon	N ¹
EARNEST Partners	B+	Loomis, Sayles	B (T)
Reinhart & Mahoney	N		
Westfield	B+	<i>High Yield Fixed</i>	
AQR	A	Loomis, Sayles	B (T)
<i>Int'l Eq</i>		<i>Real Estate</i>	
Cap. Guardian	B+	ING Clarion	N
Grantham, Mayo Intl Intrinsic Value	A		
Grantham, Mayo Intl Small Company	A		

¹ Mercer no longer rates index funds, however, Mercer considers Mellon to be a top tier index provider.

**The Employees' Retirement System of the County of Milwaukee
Proposed Investment Manager Due Diligence 2007**

<u>Date</u>	<u>Managers Invited to Present</u>
17-January	Hotchkis & Wiley
14-February	EARNEST Partners
21-February	Reinhart & Mahoney
21-March	Artisan *
18-April	
16-May	Boston Partners
20-June	Adam Street Partners
18-July	ING Clarion
15-August	Westfield Capital & AQR
19-September	Capital Guardian and GMO
17-October	
14-November	Loomis Sayles (both Core and High Yield)
29-December	JP Morgan

* Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

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